The House Financial Services Committee this week approved three pieces of legislation tied to mortgage markets, including the FHA Reform Act of 2010, which allows the Federal Housing Administration (FHA) to adjust its premium structure for new borrowers.

The committee also voted to approve the Homeowners' Defense Act and reauthorized the National Flood Insurance Program (NFIP) for five years.

The FHA Reform Act, drafted by Rep. Maxine Waters, D-Calif., increases the FHA's annual premiums from 0.5% to 1.5% and provides the agency with enhanced authority to terminate lenders' approval to originate or underwrite loans backed by FHA insurance when the FHA finds evidence of fraud or noncompliance. Such enhanced authority is needed, the act's supporters say, particularly in light of the recent cases of Lend America and Taylor Bean and Whitaker, which perpetuated fraud schemes spanning many years.

The legislation additionally requires the FHA to improve its internal reporting systems to better manage risk and to provide transparent data to the public and to Congress. This measure includes improving monitoring of early defaults and claims, tracking mortgage information by loan servicer, providing the FHA with the ability to contract out for additional credit risk analysis, requiring mortgagees to report to the FHA when they stop buying loans from other mortgagees and requiring a Government Accountability Office study on the FHA and Ginnie Mae.

The bill also creates a new deputy assistant secretary at the FHA for risk management and regulatory affairs.

"The economic crisis that started a couple of years ago and declining home prices have caused FHA's capital reserves to deteriorate in recent months, but under the leadership of Secretary Shaun Donovan and FHA Commissioner David Stevens, FHA has taken unprecedented administrative and regulatory steps to improve risk management and root out bad actors participating in the program," Waters says. "This legislation makes essential reforms to strengthen FHA's finances."

The FHA Reform Act has the support of a diverse group of organizations, including the National

Urban League, the National Council of La Raza, the National Community Reinvestment Coalition, the Mortgage Bankers Association, the National Association of Realtors and the National Association of Home Builders.

The Homeowners' Defense Act, which was approved by a 39-26 vote, would allow states that choose to join a national catastrophe insurance pool that would drive down costs. The pool could include the risk for hurricanes in Florida, earthquakes in California, mudslides in Colorado, wildfires in Arizona, tornadoes in Kansas and more.

"The federal government's response to Hurricane Katrina has unfortunately created an expectation that the government will provide similar financial assistance in future disasters," says **Rep. John Campbell, R-Calif**. **"This bill would instead give states, including my home state of California, the tools to set up effective disaster insurance programs by sharing risks across the country."**

In addition to saving families money on their homeowners' insurance premiums, this legislation would also save taxpayer money by taking preventative action before a disaster hits, supporters say. This puts an end to the current system, where taxpayers are stuck with an expensive bill following any major disaster - like the nearly $800 per family paid by American taxpayers in the wake of hurricane Katrina.

The NFIP legislation, meanwhile, delays the implementation of new rate maps so that homeowners in a neighborhood newly classified as a flood zone will not be immediately burdened with insurance costs. The bill also provides other resources for homeowners and communities, phases in actuarial rates and increases NFIP coverage limits.

"The maximum coverage limits for flood insurance policies needed to be increased because of inflation and higher housing costs," says Waters. "However, the focus on NFIP should be on providing coverage for those vulnerable to natural disasters, not to subsidize the wealthiest Americans, so we are phasing out premium subsidies for second homes and vacation homes, which will save the program a lot of money."